REXALL DRUG COMPANY

1956 annual report

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

FINANCIAL SUMMARY ..... page 1

PRESIDENT'S LETTER TO STOCKHOLDERS ..... page 2

REXALL DIVISION CLOSES WITH RECORD SALES ..... page 3

RIKER REPORTS RESEARCH DEVELOPMENTS ..... page 5

SEAMLESS GROUP ENTERS CHEMICAL FIELD ..... page 6

FINANCIAL STATEMENTS ..... page 8

FOR THE YEAR ENDED DECEMBER 31, 1956

Rexall

BOARD OF DIRECTORS

Earl E. Anderson	*Montclair, N.J.*
John Bowles	*Los Angeles, Calif.*
John C. Cornelius	*Minneapolis, Minn.*
Justin W. Dart	*Los Angeles, Calif.*
Paul A. Draper	*Boston, Mass.*
Rudolph J. Drews	*Los Angeles, Calif.*
James Knowles, Jr.	*St. Louis, Mo.*
F. Thatcher Lane	*Litchfield, Conn.*
Walter T. Lillie	*Los Angeles, Calif.*
Ade Schumacher	*New York, N.Y.*
James E. Shelton	*Los Angeles, Calif.*
William C. Tackett	*Palm Springs, Calif.*
Vernon F. Taylor	*San Antonio, Texas*

EXECUTIVE COMMITTEE

Justin W. Dart, Chairman	*Los Angeles, Calif.*
Earl E. Anderson	*Montclair, N.J.*
Vernon F. Taylor	*San Antonio, Texas*

AUDIT COMMITTEE

Earl E. Anderson, Chairman	*Montclair, N.J.*
Paul A. Draper	*Boston, Mass.*
Vernon F. Taylor	*San Antonio, Texas*

OFFICERS

Justin W. Dart	*President*
Chester W. Anderson	*Vice-President*
J. Allen Barnett, Jr.	*Vice-President*
Roland F. Hallett	*Vice-President and General Counsel*
James Knowles, Jr.	*Vice-President*
Walter T. Lillie	*Vice-President and Treasurer*
Rudolph J. Drews	*Controller*
Harold E. Price	*Secretary*

TRANSFER AGENTS—Guaranty Trust Company of New York, New York—Second Bank-State Street Trust Company, Boston—Bank of America National Trust & Savings Association, Los Angeles.

REGISTRARS—The Chase Manhattan Bank, New York—The National Shawmut Bank of Boston, Boston—California Bank, Los Angeles.

INDEPENDENT AUDITORS—Price Waterhouse & Co.

GENERAL HEADQUARTERS—Rexall Square, 8480 Beverly Blvd., Los Angeles 54, California.

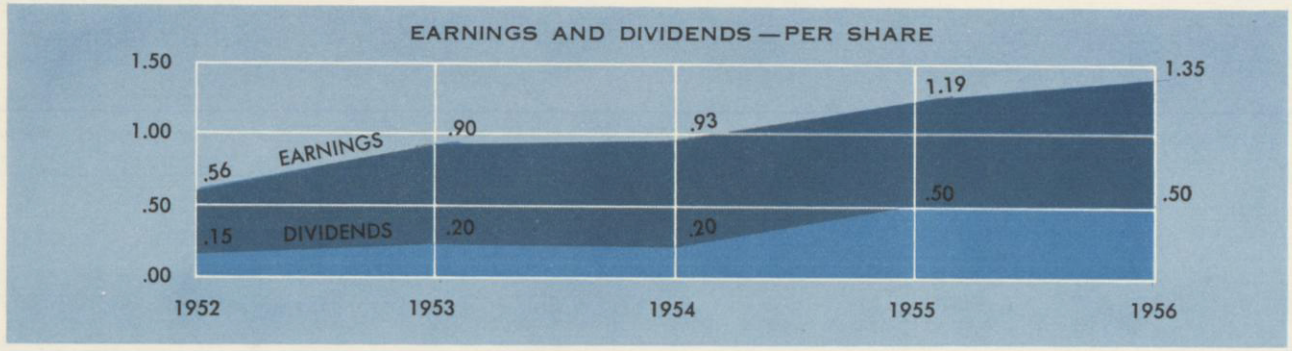
FINANCIAL SUMMARY

SUMMARY OF INCOME AND EXPENSES

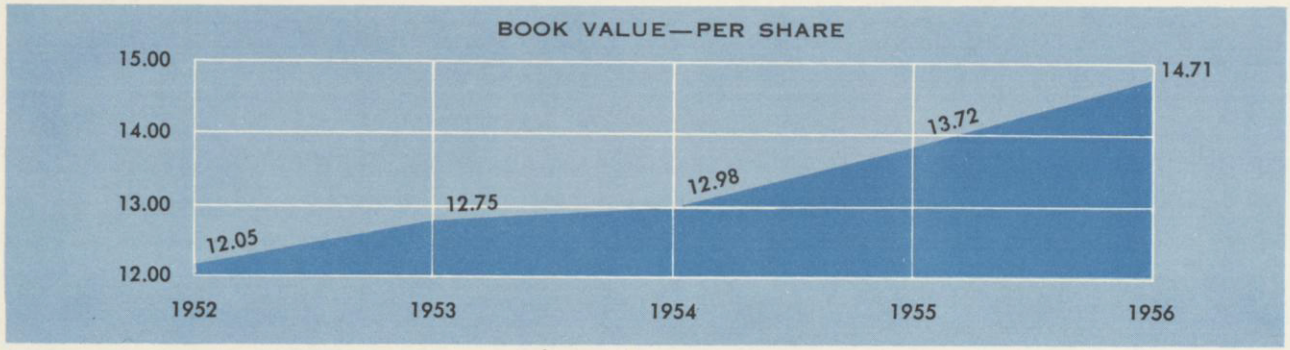
	1956	1955
NET SALES—income received from customers for products sold	$155,633,369	$153,465,106
OPERATING EXPENSES		
Purchases of materials, products and supplies and expenses of manufacturing, distribution and administration	105,020,899	102,403,142
Wages and salaries of employees	36,519,995	36,908,202
Taxes—Federal, State and Local	6,961,128	7,332,467
Interest on borrowed money	843,690	826,043
Wear and tear on plant and machinery	1,814,061	1,929,385
	151,159,773	149,399,239
NET EARNINGS	$ 4,473,596	$ 4,065,867
PER SHARE		
Net earnings	$1.35	$1.19
Dividends paid	0.50	0.50
Stockholders' equity	14.71	13.72

Note: Per share amounts above and in charts below are based upon 3,310,756 shares in 1956, 3,429,732 in 1955 and 3,501,120 for the years 1952-1954.

REXALL DRUG COMPANY



REXALL DRUG COMPANY



THE PRESIDENT'S LETTER

TO THE STOCKHOLDERS OF REXALL DRUG COMPANY

EARNINGS. Net earnings of Rexall Drug Company and its consolidated subsidiaries for the year ended December 31, 1956, were $4,473,596 equivalent to $1.35 per share on 3,310,756 shares as compared with $4,065,867 or $1.19 per share on 3,429,732 shares in 1955.

SALES. Net sales for 1956 were $155,633,369, an increase of $2,168,263 over the total of $153,465,106 shown in 1955. It is expected that 1957 sales will exceed those of last year.

CASH. Cash and short term securities at December 31, 1956, amounted to $14,532,528 as compared with $17,829,777 at the end of 1955. This reduction resulted primarily from increased inventories and receivables, the cost of purchasing treasury shares of Rexall capital stock and the additional investment in Blum's.

DIVIDENDS. Your Board of Directors, at its January, 1957 meeting, gave consideration to the dividend policy for the current year. Since a number of unusually attractive expansion opportunities are being examined, it was the consensus of opinion in your Board that the long range interest of all stockholders would be best served by conserving our cash resources.

"Tight money" has increased the cost of borrowing and substantially reduced the availability of new credit. Your Company's long term borrowing looks very attractive in the face of current money costs. The 8-year portion of the long term debt is on a 3% basis. The 23-year portion is on a 3⅜% basis. We prefer not to add to long term obligations at current high rates unless the expansion opportunity is exceptionally attractive.

Your equity per common share increased to $14.71 at the end of 1956 from $13.72 at the end of the previous year.

BLUM'S. For several years your Company has owned a minority interest in the common stock of Blum's of San Francisco. In the latter part of 1956, we increased our holdings to 76% of the outstanding common shares for an additional $720,000.

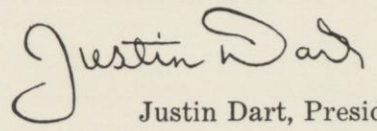
The sales, earnings and financial position of Blum's have been improving steadily over recent years. The financial statements of Blum's have not been consolidated with Rexall for the year 1956.

OUTLOOK. We expect that 1957 will be another good year for your Company, assuming that general economic conditions are substantially unchanged. Increasing wage, material and transportation costs continue to make it difficult for most businesses to improve profits.

The Annual Meeting of the Stockholders will be held in Los Angeles, California, on April 23, 1957. If you are unable to attend, we urge you to exercise your voting rights and mail in your proxy as soon as it is convenient.

February 26, 1957.

Respectfully submitted,



Justin Dart, President

REXALL DIVISION:

Sales of Rexall trade-marked products, manufactured and distributed by this Division, established a new high in 1956.

Prospects for further increasing sales in 1957 appear favorable. Increased costs of operation are tending to make it more difficult to increase profits in this Division.

OUTSTANDING NEW PRODUCTS. Several of the new products now on the market or soon to be released merit special mention:

THRU —a highly-effective liquid relief for muscular aches and pains was launched in October.

SUPER ANAPAC —an improvement over an existing product for coughs and colds, was introduced in January, 1957. It now contains highly-publicized citrus bioflavonoid and Vitamin C.

STAG —a completely re-formulated and redesigned line of men's toiletries will make its appearance next month.

Others scheduled are a new Rexall sweetener in unusual containers for both liquid and tablet forms and several aerosol products such as Rubbing Alcohol in which this method of application builds in new convenience to the product.

These are the key men in the sales organization of the Rexall Division. Seated is John Bowles, president of the division. Standing, left to right, are Reid I. Crane, vice-president for Western Region; George H. Davis, vice-president for Central Region; Edwin Vick, assistant to vice-president for Western Region; and Arch T. Carithers, vice-president for Eastern Region.

REXALL DIVISION:

DEALER SERVICE. Rexall Division has a continual problem in trying to induce its dealers to take full advantage of services and opportunities offered them. Revisions in sales organization were made toward this end:

- Sales regions were reapportioned.
- District Managers serving Rexall druggists were nearly doubled.

MANUFACTURING AND DISTRIBUTION. Consolidation of Boston manufacturing facilities with the St. Louis plant proved as advantageous as was forecast.

The program to improve warehousing facilities to provide better service to dealers and to cut distribution costs will continue in 1957. In 1956, new units went into operation in St. Louis, Mo., and San Leandro, Calif. New warehouses in Boston, Mass., Columbus, Ohio, and Baltimore, Md., are scheduled for 1957.

REXALL REALTY CORPORATION. The vast majority of retail expansion is taking place in new shopping centers with ample parking facilities. The average Rexall druggist does not have the financial resources to enable developers to secure long term financing on the basis of his lease. Through Rexall Realty Corporation, a wholly-owned subsidiary, we are making it possible for the Rexall druggists to secure leases. We are also participating in their financing. This program is essential to give Rexall a strong position in this fast-developing market. This partnership couples the incentive of the operator with our resources and experience. It should be mutually beneficial. Approximately thirty of these stores are planned to be in operation by the end of 1957.

CANADA. Growth of the Canadian Company in recent years has necessitated the construction of new manufacturing and distribution facilities in Toronto. The new plant, expected to be completed in the latter part of 1957, will also house the headquarters offices.

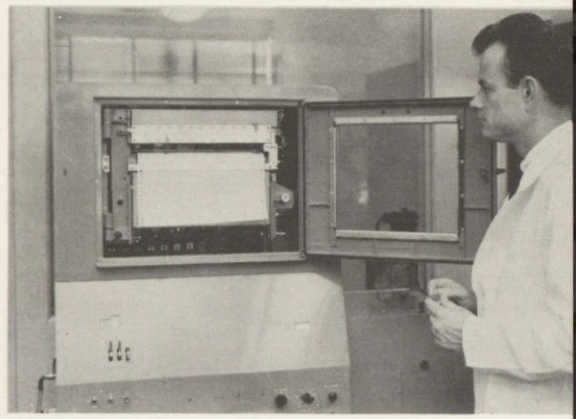
RIKER LABORATORIES, INC.:

In 1956, Riker marketed an entirely new line of products developed by its own research—the Medihalers. These are the first self-powered aerosol medications for internal use.

Of the new Medihalers, two are for relief from asthma, one more effectively relieves the pains of angina pectoris and another relieves nasal congestion. They are currently being introduced in Canada. Additional members to this group will appear in 1957.

RESEARCH. A number of new synthetic compounds created by Riker research are being tested. Several have exhibited unique actions and appear to be patentable. Further study will determine whether any will prove suitable for marketing.

Doris Haskell, laboratory technician, runs a test on one of the rabbits being used in the search for substances to overcome hardening of the arteries.



Chief analyst Carl Stimmel of Riker's Pharmaceutical Development Section checks results from Carey Recording UV Spectrophotometer.

Medihaler-Phen, one of the new Medihaler group developed by Riker, relieves congestion of nasal passages.

FOREIGN OPERATIONS. Riker's English and South African subsidiaries reported encouraging growth in both sales and earnings in 1956. Because of need for additional working capital, they will retain most of their 1957 earnings. The operations of these companies have not been consolidated with Rexall financial statements and no dividends have been received to date.

RETAIL DIVISION:

At the end of 1956, our Retail Division was operating 158 retail drug stores compared with 165 at the end of 1955. Retail agency accounts increased to 219 in 1956 from 193 at the close of 1955.

EXPANSION PLANS. Liggett Drug Company, Inc., will concentrate future expansion of drug stores and agencies in the New York-New England area and in the Southeastern states.

During 1957, a major Liggett warehouse and office building will be completed in Jacksonville, Florida. Included in this move will be more complete administrative, merchandising and operational functions for this expanding area.

The Owl Drug Co., will plan its future growth mainly in the state of California for both drug stores and retail agencies.

FORECAST. By 1958, sales of our Retail Division should be on a definite upward trend. We anticipate an accelerated growth in our retail agency division.

SEAMLESS GROUP:

The Seamless Rubber Company, New Haven, Conn., produces rubber and hospital supplies and sick room accessories. It is a major factor in the manufacture of surgeons' gloves. Seamless also produces rubber and plastic footballs, basketballs, play balls and other sporting goods. It is continuing its development of rubber and plastic lines as well as special purpose industrial tapes.

NEW DEVELOPMENTS. *Seamco Chemical Company,* a division of Seamless Rubber, was established last year for the production of polystyrene, a plastic molding powder. Production runs will begin late in 1957. The product will not be used by other Rexall subsidiaries but will be sold to outside producers of finished goods.

Kraloy Plastic Pipe Co., Inc., was purchased in 1956. Currently, it is a small operation in its development stages.

Initial development costs for these two companies were absorbed in 1956. No real contribution to earnings is expected until 1958.

UNITED COTTON PRODUCTS COMPANY. This Company has made application for several basic patents for new abrasive products during the past year. These patents should contribute additional volume and profits for this Division in future years.

THE ABSORBENT COTTON COMPANY. Substantial progress has been made on the long term plan to make this plant one of the most efficient producers of cotton products in the field.

TESTED PRODUCTS COMPANY:

With the completion of the St. Louis drug and cosmetic manufacturing facilities and the new production plant under construction in Toronto, Canada, Rexall ranks among the largest and most efficient drug and cosmetic manufacturers.

Tested Products has already contracted for the manufacture of a wide variety of pharmaceutical, proprietary, cosmetic and household products for other companies.

Tested Products will contract with new companies up to the capacity of existing facilities. No matter how complicated the preparation, ample technical staff and control facilities are available.

President of Tested Products is James A. Barnett, Jr., formerly vice-president of Lever Brothers. The mailing address is 8480 Beverly Blvd., Los Angeles 54, California.

V.C.A. LABORATORIES:

INTRACEL. During the year 1956, V.C.A. developed and introduced a new product, Intracel. Intracel relieves muscular aches and pains. The list of other uses seems to be growing all the time.

It is based on an entirely new principle. Spread on the surface of the skin, it requires no rubbing. It penetrates the skin and the tissue rather than merely producing external counter irritation and heat to create greater blood flow. For many patients, it gives temporary relief in chronic ailments such as arthritis, rheumatism and lumbago. It is, in our opinion, by far the most effective product in its field. (V.C.A. has licensed Rexall to market this product under its own trade name "THRU.")

Intracel was introduced in the fall of 1956 with a very heavy national advertising program.

The substantial amount of expense connected with the introduction of this product reduced V.C.A. profits in 1956. Substantial promotional expenses will continue in 1957.

SUPER RYBUTOL. V.C.A. began in 1956 to introduce, market by market, a new therapeutic potency vitamin product—Super Rybutol.

High-potency Super Rybutol is designed to correct the more acute cases of vitamin and mineral deficiencies. It does not in any way replace or conflict with the present consumer market of Rybutol, which is essentially a Vitamin B-complex product.

Additional markets will be opened during 1957.

REXALL DRUG COMPANY*

CONSOLIDATED BALANCE SHEETS

ASSETS			1956	1955
CURRENT ASSETS				
Cash			$12,550,028	$14,847,176
Short term securities at cost and redemption amount, latest maturity November, 1957			1,982,500	2,982,601
			14,532,528	17,829,777
Accounts and notes receivable, less reserves of $649,310 in 1956 and $611,450 in 1955				
Customers			14,424,367	12,699,884
Others			2,298,325	2,305,566
Inventories, at cost or market whichever lower				
	1956	1955		
Raw materials and supplies	$ 5,181,463	$ 4,738,879		
Work in process	1,978,757	2,056,923		
Finished merchandise	28,275,660	27,766,803	35,435,880	34,562,605
Total Current Assets			66,691,100	67,397,832
INVESTMENTS, ADVANCES AND NONCURRENT RECEIVABLES				
Investments in and advances to subsidiaries not consolidated				
United States subsidiaries (Rexall equity in net assets $1,593,000 in 1956 and $563,000 in 1955)			1,627,402	612,500
Foreign subsidiaries wholly owned (net assets were $1,630,000 in 1956 and $1,252,000 in 1955)			490,848	459,092
Miscellaneous investments, at cost less reserve			258,444	109,444
Receivables due after one year, advances and deposits, less reserve				
Due from officers and employees under stock purchase plan			927,482	592,922
Due from sale of retail stores			786,198	728,919
Other			1,494,213	1,606,158
			5,584,587	4,109,035
PROPERTY ACCOUNTS, AT COST				
Land			1,466,304	1,007,071
Buildings and building fixtures			11,508,485	10,799,324
Machinery and equipment			13,263,601	14,122,518
Store fixtures, leaseholds and improvements			11,101,094	11,627,081
			37,339,484	37,555,994
Less—accumulated depreciation			19,132,526	19,917,369
			18,206,958	17,638,625
INSURANCE, TAXES, RENT AND OTHER DEFERRED CHARGES			485,561	543,935
GOODWILL AND TRADEMARKS			1	1
			$90,968,207	$89,689,428

No amounts have been included in the financial statements in respect of claims seeking recovery of Federal excess profits taxes. The claims filed in 1953 are based on a contention that the excess profits credits should be increased for the years 1940 to 1945, inclusive.

AND ITS WHOLLY OWNED UNITED STATES AND CANADIAN SUBSIDIARIES

DECEMBER 31, 1956 AND DECEMBER 31, 1955

LIABILITIES	1956	1955
CURRENT LIABILITIES		
Accounts payable	$ 8,603,527	$ 8,178,822
Accrued wages, salaries and taxes thereon	3,006,511	3,099,318
Other accrued expenses	3,936,307	3,676,273
Current instalments of long term indebtedness	1,444,065	1,376,467
Estimated Federal and Canadian taxes on income for current and prior years	3,849,313	3,386,826
Total Current Liabilities	20,839,723	19,717,706
LONG TERM INDEBTEDNESS, less current instalments shown above		
Sinking fund debentures, 3% due 1965	6,408,660	7,174,320
Promissory notes, 3⅜% due in semi-annual instalments to 1980	14,214,000	14,846,000
Real estate obligations	810,870	882,691
	21,433,530	22,903,011
STOCKHOLDERS' EQUITY		
Capital stock of Rexall Drug Company Authorized—5,000,000 shares, par value $2.50 each Issued—3,501,120 shares	8,752,800	8,752,800
Other paid in capital (increased in 1956 by $7,038 gain on sale of treasury stock)	10,598,153	10,591,115
Earnings retained and used in the business, per accompanying statement (under indentures covering long term indebtedness, $4,540,000 of the retained earnings at December 31, 1956 is not restricted as to payment of dividends)	31,202,199	28,406,487
	50,553,152	47,750,402
Less—cost of treasury stock—190,364 shares in 1956 and 71,388 shares in 1955	1,858,198	681,691
Total Stockholders' Equity	48,694,954	47,068,711
	$90,968,207	$89,689,428

Under options granted in 1956, 30,000 shares of treasury stock are reserved for purchase by two officers over the next ten years, at amounts aggregating approximately $295,000.

At December 31, 1956 the companies were committed under some 170 leases expiring more than three years after that date with minimum annual rentals of approximately $2,900,000. Less than 5 per cent of this amount relates to leases expiring more than 25 years after December 31, 1956.

*Incorporated in Delaware

CONSOLIDATED STATEMENT OF EARNINGS AND EARNINGS RETAINED AND USED IN THE BUSINESS

	1956	1955
Sales, less returns, allowances and discounts	$155,633,369	$153,465,106
Cost of sales, selling, distribution, promotional and administrative expenses, etc.	(143,902,022)	(141,793,811)
Depreciation	(1,814,061)	(1,929,385)
Interest on indebtedness	(843,690)	(826,043)
Provision for Federal and Canadian taxes on income	(4,600,000)	(4,850,000)
Net earnings for year	4,473,596	4,065,867
Earnings retained and used in the business at beginning of year	28,406,487	26,071,760
Dividends paid—50¢ per share	(1,677,884)	(1,731,140)
Earnings retained and used in the business at close of year	$ 31,202,199	$ 28,406,487

INDEPENDENT AUDITORS REPORT

PRICE WATERHOUSE & CO.

530 WEST SIXTH STREET
LOS ANGELES 14

February 26 1957

To the Board of Directors
of Rexall Drug Company

In our opinion, the accompanying statements present fairly the consolidated financial position of Rexall Drug Company and its wholly owned United States and Canadian subsidiaries at December 31 1956 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

REXALL DRUG COMPANY AND ITS WHOLLY OWNED UNITED STATES AND CANADIAN SUBSIDIARIES

CONSOLIDATED STATISTICAL SUMMARY

IN THOUSANDS OF DOLLARS

FINANCIAL OPERATIONS	1956	1955	1954	1953	1952
Net sales	$155,633	$153,465	$176,138	$189,244	$178,293
Earnings before Federal and Canadian income taxes and special items	9,074	8,916	6,567	6,456	3,960
Federal and Canadian income taxes	4,600	4,850	3,300	3,300	2,000
Net earnings	4,474	4,066	3,267	3,156	1,960
Earnings per share of common stock	$ 1.35	$ 1.19	93¢	90¢	56¢

FINANCIAL POSITION	1956	1955	1954	1953	1952
Cash and short term securities	$ 14,533	$ 17,830	$ 12,463	$ 12,593	$ 10,012
Accounts receivable	16,722	15,005	14,346	15,130	12,849
Inventories	35,436	34,563	38,246	37,225	38,247
Current assets	66,691	67,398	65,055	64,948	61,108
Less—Current liabilities	20,840	19,718	18,803	20,120	18,085
Working capital	45,851	47,680	46,252	44,828	43,023
Property, machinery and equipment (net)	18,207	17,639	17,869	20,440	21,224
Investments, advances, prepaid expenses, etc.	6,070	4,653	3,943	3,974	4,084
Less—Real estate obligations	811	883	927	1,356	1,216
Other long term indebtedness	20,622	22,020	21,775	23,238	24,928
Stockholders' equity	$ 48,695	$ 47,069	$ 45,362	$ 44,648	$ 42,187
Stockholders' equity—amount per share	$ 14.71	$ 13.72	$ 12.98	$ 12.75	$ 12.05
Number of shares of stock outstanding	3,310,756	3,429,732	3,501,120	3,501,120	3,501,120
Number of stockholders	15,865	15,807	14,688	15,435	16,225

Illustrated at left is the Stag portion of Rexall's national magazine ad appearing next month which introduces the new Stag line of men's toiletries to the public.

Everything in the line is new but the name, Stag, which dates back 25 years. Rexall druggists are accepting the new line with enthusiasm exceeding management's forecasts.

1956 annual report

1.

2.

3.

4.

Only Rexall Drug Stores that are completely identified capitalize on the extensive Rexall national advertising. Identification with Rexall increases the store's overall volume because, more and more, customers are shopping at nationally-known stores.

A major objective of the Rexall Division of your Company is to have all Rexall stores in the United States identified in a manner similar to those shown at left.

They are:

1. REDWOOD REXALL DRUGS, SALT LAKE CITY, UTAH.
2. HAMPTON REXALL DRUGS, BELLFLOWER, CALIF.
3. OWL REXALL DRUGS, (AGENCY STORE) SAN DIEGO, CALIF.
4. CLEMENTS REXALL DRUGS, BELTON, TEXAS.

Rexall